

VIQ Solutions Inc.

Consolidated Financial Statements
Debtor-in-Possession
December 31, 2004

AUDITORS' REPORT

To the Shareholders of VIQ Solutions Inc.

We have audited the consolidated balance sheets of VIQ Solutions Inc. as at December 31, 2004 and the consolidated statements of operations and deficit and cash flows for the period then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2004 and the results of its operations and cash flows for the period then ended in accordance with Canadian generally accepted accounting principles.

DMCT, LLP

DMCT, LLP

April 8, 2005

See accompanying notes to the consolidated financial statements

VIQ Solutions Inc.
 Consolidated Balance Sheet
 Debtor-in-Possession
 As at December 31, 2004

Assets

Current

| | |
|------------------------------------|--------------|
| Cash and cash equivalents (note 5) | \$ 1,827,898 |
| Receivables | 1,439,160 |
| Share subscription receivable | 700,200 |
| Inventories (note 6) | 30,637 |
| Prepaid expenses | 85,916 |

 4,083,811

| | |
|---|-----------|
| Accrued investment tax credits receivable | 30,000 |
| Property, plant and equipment (note 7) | 811,378 |
| Goodwill (note 8) | 1,542,246 |
| Future income tax benefit (note 9) | 245,282 |
| Other assets (note 10) | 107,142 |

 \$ 6,819,859

Liabilities

Current

| | |
|--|------------|
| Short-term debt (note 11) | \$ 500,000 |
| Payables and accruals | 2,765,602 |
| CCAA amounts payable (note 12) | 500,000 |
| Deferred revenue | 139,902 |
| Note payable (note 13) | 383,418 |
| Current portion of long-term debt (note 14) | 292,000 |
| Current portion of obligations under capital lease (note 15) | 121,360 |

 4,702,282

| | |
|---|--------|
| Obligations under capital lease (note 15) | 73,088 |
|---|--------|

 4,775,370

Shareholders' Equity

| | |
|---|-----------|
| Capital stock (note 16) | 2,072,374 |
| Contributed surplus (note 17) | 5,200 |
| Cumulative foreign currency translation adjustments (note 19) | 43,214 |
| Deficit | (76,299) |

 2,044,489

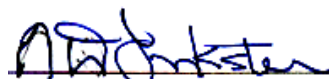
 \$ 6,819,859

Going Concern Uncertainty (note 2)
 Contingencies and Subsequent events (notes 21 and 28)

Approved by the Board Director



Director



See accompanying notes to the consolidated financial statements

VIQ Solutions Inc.
Consolidated Statement of Operations
Debtor-in-Possession
For the period December 24, 2004 to December 31, 2004

| | | |
|--|----|------------|
| Sales | \$ | 85,672 |
| Cost of sales | | 61,313 |
| Gross profit | | 24,359 |
| Expenses | | |
| Selling and administrative | | 94,805 |
| Foreign exchange loss | | 5,853 |
| | | 100,658 |
| Net loss for the period | \$ | (76,299) |
| Net loss per common share | \$ | (0.00) |
| Weighted average number of common shares outstanding | | 41,362,837 |

See accompanying notes to the consolidated financial statements

VIQ Solutions Inc.
Consolidated Statement of Deficit
Debtor-in-Possession
For the period December 24, 2004 to December 31, 2004

| | | |
|------------------------------|----|----------|
| Deficit, beginning of period | \$ | - |
| Net loss for the period | | (76,299) |
| Deficit, end of period | \$ | (76,299) |

See accompanying notes to the consolidated financial statements

VIQ Solutions Inc.
 Consolidated Statement of Cash Flows
 Debtor-in-Possession
 For the period December 24, 2004 to December 31, 2004

| | |
|---|--------------|
| Cash flows from operating activities | |
| Net loss for the period | \$ (76,299) |
| Stock-based compensation for employees | 5,200 |
| Unrealized foreign exchange loss | 5,853 |
| | (65,246) |
| Changes in non-cash operating working capital (note 24) | 53,972 |
| Cash flows used in operating activities | (11,274) |
| Cash flows from investing activities | |
| Cash acquired on purchase of VoiceIQ (note 4) | 735,702 |
| Cash flows from investing activities | 735,702 |
| Cash flows from financing activities | |
| Proceeds from shares issued for cash (note 16) | 1,104,400 |
| Cash flows from financing activities | 1,104,400 |
| Effect of exchange rate changes on cash | (930) |
| Increase in cash and cash equivalents during the period | 1,827,898 |
| Cash and cash equivalents, beginning of period | - |
| Cash and cash equivalents, end of period | \$ 1,827,898 |

VIQ Solutions Inc.

Notes to Consolidated Financial Statements

December 31, 2004

1. Introduction

VIQ Solutions Inc. (“VIQ Solutions” or the “Corporation”) was incorporated by Certificate of Incorporation pursuant to the provisions of the *Business Corporations Act* (Alberta) on November 10, 2004. On December 23, 2004, pursuant to a formal plan of arrangement (“the Arrangement”) by VoiceIQ Inc. (“VoiceIQ”), the Corporation purchased all the assets of VoiceIQ, being the voice capture and digitization assets and business of VoiceIQ in exchange for 36,776,310 shares of the Corporation (“the Acquisition”). As part of the Acquisition, VIQ Solutions assumed all of VoiceIQ’s contractual obligations and liabilities as of the date of the Arrangement that were not compromised by VoiceIQ under the Companies Creditors Arrangement Act (Canada) (“CCAA”). As part of the Arrangement, VIQ Solutions issued 2,000,000 common shares to certain creditors of VoiceIQ and an additional 1,333,333 common shares to a creditor of VoiceIQ as partial consideration of debt settlement under the CCAA. Until the Arrangement was implemented, VIQ Solutions did not carry on any business and had no material assets or liabilities. The Corporation commenced active business on December 24, 2004.

Under Canadian generally accepted accounting principles (“GAAP”), a company is required to comprehensively revalue its assets and liabilities after a financial reorganization that results in a substantial realignment of the equity and non-equity interest in the company. As there was no substantial change in control of the Corporation subsequent to the Arrangement, the assets and liabilities acquired from VoiceIQ have not been revalued.

Due to the fact that the Corporation was operational for only the last eight days of 2004 and that the predecessor company, being VoiceIQ, underwent a major restructuring, comparative figures are not meaningful and accordingly, have not been provided.

2. Going Concern Uncertainty

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a “going concern”, which assumes that the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of its operations. Prior to the Plan, VoiceIQ incurred significant operating losses, and, as at December 31, 2004, the Corporation has a working capital deficiency.

In January 2005, the Corporation secured a twelve month, \$1,280,000 secured convertible debenture. The convertible debenture bears interest at a rate of 12% per annum compounded and payable monthly. The debenture is convertible into 7,111,111 units at a conversion price of \$0.18 per unit. Each unit is comprised of one common share of the Corporation and one half of one common share purchase warrant. Each whole warrant entitles the debenture holder to purchase one common share at a price of \$0.30 for a period of 18 months from the date of closing. The Corporation repaid the outstanding Debtor-in-possession (“DIP”) financing that was assumed from VoiceIQ from the proceeds of the convertible debenture.

In January and February 2005, the Corporation received net proceeds of \$650,140 in connection with private placements by issuing 3,611,888 units at a price of \$0.18 per unit. Each unit is comprised of one common share and one-half warrant whereby each whole warrant entitles the holder thereof to purchase one common share at a price of \$0.30 for a period of 18 months from the closing date.

In February 2005, the Corporation issued 2,490,555 units at \$0.18 for net proceeds of \$448,300 through a director’s placement based on the same terms and conditions of the above-noted private placements.

In March 2005, the Corporation completed an additional private placement financing and received net proceeds of \$575,000 by issuing 2,500,000 units at a price of \$0.23 per unit. Each unit is comprised of one common share and one-half warrant whereby each whole warrant entitles the holder thereof to purchase one common share at a price of \$0.30 for a period of 24 months from the closing date.

2. Going Concern Uncertainty (Cont'd)

Management believes that these actions make the going concern basis appropriate. If the going concern basis is not appropriate, adjustments may be necessary to the carrying amounts and/or classification of assets and liabilities, and expenses in these financial statements.

The Corporation's ability to continue as a going concern is dependent on its ability to achieve and maintain profitable operations. These consolidated financial statements do not reflect any adjustments to reflect the possible future effects on the recoverability and the classification of assets and of the amounts and the classification of liabilities that may result if the going concern assumption were not appropriate. Such adjustments may be material.

3. Summary of Significant Accounting Policies

Nature of Operations

VIQ Solutions develops software and provides solutions that capture, digitize, compress and store voice from a variety of sources, including microphones, telephones and hand held recorders. The software can be used to securely manage the flow of voice files over virtually any computer network, including the Internet. The Corporation supplies, through a network of distributors and channel partners, solutions to end-users including individual medical clinics, legislative assemblies, courthouses and quasi-judicial agencies. NetScribe, a sophisticated web-based workflow management switch, provides anywhere anytime transcription work flow capabilities worldwide.

The Corporation also provides transcription services directly or by contracting to various suppliers around the world to a variety of clients including medical, court rooms, legislative assemblies, hearing rooms and quasi-judicial clients in various countries including Canada, the United States, Australia, New Zealand and Ireland.

Accounting Principles

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles.

Basis of Consolidation

On December 23, 2004, the Corporation acquired all the assets and assumed all the associated contractual obligations and liabilities (to the extent that they were not compromised under the CCAA) from VoiceIQ including its wholly-owned subsidiary VIQ Australia Pty Ltd. and VIQ Australia Pty Ltd.'s wholly-owned subsidiaries Spark & Cannon Pty Ltd., Spark & Cannon (SA) Pty Ltd. (collectively referred to as "Spark & Cannon") and VoiceIQ NZ Limited. The consolidated financial statements include the accounts of VIQ Solutions Inc. and the operations of the newly acquired assets as of the date of acquisition being December 23, 2004. The Corporation commenced active business on December 24, 2004.

Use of Estimates

In preparing the Corporation's consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and reported amounts of revenue and expenses. Actual results could differ from these estimates.

Significant areas requiring the use of management estimates relate to the determination of the valuation of goodwill, the useful lives of property, plant and equipment and other assets for amortization purposes, amounts recorded as accrued liabilities and the fair values of financial instruments.

3. Summary of Significant Accounting Policies (Cont'd)

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash in trust, balances with banks and highly-liquid temporary money market instruments with original maturities of three months or less at the date of acquisition. Bank borrowings are considered to be financing activities.

Allowance for Doubtful Accounts and Bad Debt Expense

The Corporation evaluates the collectibility of its trade receivables based upon a combination of factors. The Corporation regularly reviews and updates its information with respect to significant receivable balances. The Corporation has historically been dependent on a small but increasing number of significant customers and on large complex contracts with respect to sales of the majority of its services. The Corporation expects this trend of increasing trade receivables balances with its large customers to continue as it sells an increasing number of its products and service relay access through network carriers and resellers rather than directly.

When the Corporation becomes aware of a specific customer's inability to meet its financial obligations to the Corporation, (such as in the case of bankruptcy filings or material deterioration in the customer's operating results or financial position, payment experiences and existence of credit risk insurance), the Corporation records a specific bad debt provision to reduce the customer's related trade receivable to its estimated net realizable value. If circumstances related to specific customers change, the Corporation's estimates of the recoverability of trade receivables could be further adjusted.

Inventories

Inventories of finished goods are valued at the lower of cost and net realizable value. Computer parts and supplies are valued at the lower of cost and replacement cost. Cost is determined on a first-in, first-out basis.

Property, Plant and Equipment

Rates and basis of depreciation and amortization, applied to write off the cost of property, plant and equipment over their estimated lives, are as follows:

| | |
|------------------------|-----------------------------|
| Furniture and Fixtures | - 16%-20% declining balance |
| Computer Equipment | - 22%-50% declining balance |
| Motor Vehicles | - 19%-20% declining balance |

Goodwill

The Corporation applies the recommendations of the CICA on accounting for goodwill and other intangible assets. In accordance with the standard, goodwill is not amortized and is tested annually for impairment in value. The Corporation performs annual impairment testing as of December 31. No impairment loss was recorded in the current period.

In addition to the annual impairment test, the Corporation will perform an impairment test if an event occurs or circumstances change that would reduce the fair value of goodwill below its carrying amount.

3. Summary of Significant Accounting Policies (Cont'd)

Other Assets

Patents and website costs are amortized on a straight-line basis over their estimated lives of three years.

Research costs are charged to operations when incurred. Development costs are expensed in the year, unless they meet specific criteria related to technical, market and financial feasibility in which case they are deferred and amortized on a straight-line basis over the estimated product life, not to exceed five years. Where there is uncertainty regarding the period of benefit, the costs are expensed as incurred.

The carrying values of intangibles are assessed annually to determine if permanent impairments in value exist. The Corporation assesses impairment by determining whether the unamortized balances can be recovered through future operating cash flows of the businesses to which the balances relate. Future operating cash flows are not discounted in making this assessment.

Revenue Recognition

The Corporation recognizes revenue from the sale of its products when the goods are shipped and received by the customer. Revenues from installation and training relating to the sale of software products are recognized as the services are performed. Software support maintenance revenue is recognized over the term of the maintenance agreement. Revenues from recording and transcription services and information support are recognized as services are provided. Revenues from licenses and royalties are recognized as they accrue in accordance with the terms of the license or royalty agreement, provided reasonable assurance exists regarding measurement and collectibility. The Corporation defers revenues that have been billed and collected but which do not meet the revenue recognition criteria.

Future Income Taxes

The Corporation uses the liability method of tax allocation in accounting for income taxes whereby temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the consolidated balance sheet are used to calculate future income taxes. Future income tax assets and liabilities are measured using the income tax rates and laws that, at the consolidated balance sheet date, are expected to apply when the differences reverse. The amount recognized for future income tax assets is limited to the amount that is more likely than not to be realized.

Government Assistance and Investment Tax Credits

The Corporation makes periodic applications for financial assistance under available government incentive programs. Grants relating to capital expenditures are recorded as a reduction of the cost of such assets. Grants relating to current expenses are recognized as a reduction of the related expense in the period earned. During the period, the Corporation and its subsidiaries did not earn any government and similar grants.

Investment tax credits are accrued when qualifying expenditures are incurred and there is reasonable assurance that the credits will be realized. Investment tax credits earned with respect to current expenditures for qualified research and development activities are included in the consolidated statements of operations as a reduction of expenses. Investment tax credits associated with capital expenditures are reflected as reductions in the carrying amounts of capital assets. During the period, the Corporation and its subsidiaries did not accrue any investment tax credits.

3. Summary of Significant Accounting Policies (Cont'd)

Translation of Foreign Currencies

All of the assets and liabilities of self-sustaining subsidiaries are translated at the year-end rate of exchange. Revenue and expenses are translated at the average rate of exchange for the period. The translation adjustment is included in shareholders' equity on the consolidated balance sheets under the caption "Cumulative foreign currency translation adjustments".

With regard to Canadian legal entities and integrated foreign subsidiaries, monetary assets and liabilities denominated in foreign currencies are translated at the year-end rate of exchange. Revenue and expenses are translated at average rates of exchange, except for the cost of inventories and for depreciation and amortization, which are translated at rates prevailing when the related assets were acquired. Translation gains and losses are included in earnings.

The reporting currency of the Corporation is the Canadian dollar.

Earnings (Loss) Per Common Share

Basic earnings (loss) per common share is calculated by dividing the net earnings (loss) by the weighted average number of the Corporation common shares outstanding during the period. Diluted earnings (loss) per common share is calculated by dividing the applicable net earnings (loss) by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued during the period. The treasury stock method is used to compute the dilutive effect of options, warrants and similar instruments.

Stock-based Compensation Plans

The Corporation has a stock option plan for directors, officers, consultants and key employees. Stock options granted to employees, directors and consultants are measured at the estimated fair value at the date of grant and expensed. Fair value is determined using the Black-Scholes option pricing model. Compensation costs for stock options are recognized over the vesting period. When options are exercised the amount received is credited to share capital.

4. Acquisition of Assets on Reorganization of VoiceIQ

On December 23, 2004, the Corporation signed an asset purchase agreement to acquire all of the assets of VoiceIQ and its subsidiaries and assume all of VoiceIQ's liabilities to the extent that they were not compromised under the CCAA. The aggregate purchase price was satisfied by the issuance of 36,776,310 common shares of the Corporation. As part of the Arrangement, VIQ Solutions issued 2,000,000 common shares to certain creditors of VoiceIQ and an additional 1,333,333 common shares to a creditor of VoiceIQ as partial consideration of debt settlement under the CCAA. Further, the Corporation reissued the stock options and warrants that were outstanding as of December 23, 2004 under the same terms and conditions that they existed in VoiceIQ.

Under Canadian GAAP, a company is required to comprehensively revalue its assets and liabilities after a financial reorganization that results in a substantial realignment of the equity and non-equity interest in the company. As there was no substantial change in control of the Corporation subsequent to the Arrangement, the assets and liabilities acquired from VoiceIQ have not been revalued.

4. Acquisition of Assets on Reorganization of VoiceIQ (Cont'd)

Accordingly, the value of the 36,776,310 common shares and the additional shares issued to the creditors of VoiceIQ was determined based on the carrying value of the net assets acquired at the time of the acquisition. The results of VoiceIQ's operations have been included in the consolidated financial statements since the agreement took effect on December 23, 2004. Details of the assets acquired and liabilities assumed at their net book values are as follows:

| Net identifiable assets of VoiceIQ: | |
|--|-------------|
| Cash | \$ 735,702 |
| Current assets | 1,644,019 |
| Property, plant & equipment | 815,313 |
| Other assets | 384,226 |
| Current liabilities | (3,935,251) |
| Note payable | (386,236) |
| Grant payable | (292,000) |
| Obligations under capital lease | (195,330) |
| Identifiable net assets | (1,229,557) |
| Goodwill acquired | 1,553,581 |
| Acquisition price | \$ 324,024 |
| Consideration: | |
| 1,136,333 stock options and 2,894,577 warrants | |
| 2,000,000 common shares to creditors | |
| 1,333,333 common shares to one creditor | |
| 36,776,310 common shares to shareholders | \$ 324,024 |
| Total consideration | \$ 324,024 |

5. Cash and Cash Equivalents

Cash and cash equivalents are comprised of the following:

| | |
|---------------------|--------------|
| Cash on hand | \$ 643,528 |
| Cash, held in trust | 1,184,370 |
| | \$ 1,827,898 |

6. Inventories

| | |
|----------------------------|-----------|
| Raw materials and supplies | \$ 1,512 |
| Finished goods | 29,125 |
| | \$ 30,637 |

7. Property, plant and equipment

| | Cost | Accumulated Amortization | Net Book Value |
|------------------------|------------|-----------------------------|----------------|
| Furniture and fixtures | \$ 245,938 | \$ - | \$ 245,938 |
| Computer equipment | 504,756 | - | 504,756 |
| Motor vehicles | 60,684 | - | 60,684 |
| | \$ 811,378 | \$ - | \$ 811,378 |

Included in property plant and equipment are items under capital leases with a cost of \$269,300 and accumulated amortization of \$nil.

8. Goodwill

| | |
|-----------------------------|--------------|
| Opening balance | \$ - |
| Goodwill acquired (note 4) | 1,553,581 |
| Foreign currency adjustment | (11,335) |
| | \$ 1,542,246 |

The Corporation has completed its annual impairment testing as at December 31st, 2004. The fair value of the Corporation's reporting units was estimated using the present value of future cash flows approach. The test indicated that the carrying value of goodwill was appropriate. Accordingly, the Corporation did not record a non-cash impairment charge for Spark & Cannon.

9. Future Income Taxes

Future tax assets of \$245,282 relate to Spark & Cannon (see Income Taxes – note 26).

10. Other Assets

A summary of the intangible assets is outlined as follows:

| | Cost | Accumulated Amortization | Net Book Value |
|----------------------------|------------|-----------------------------|----------------|
| Deferred development costs | \$ 80,965 | \$ - | \$ 80,965 |
| Website | 16,835 | - | 16,835 |
| Patents | 9,342 | - | 9,342 |
| | \$ 107,142 | \$ - | \$ 107,142 |

11. Short-term Debt

Pursuant to the Arrangement, the Corporation assumed debtor-in-possession ("DIP") financing of up to \$1.2 million due on September 2, 2005 from a company in which a director of the Corporation is a senior officer (see note 27). As at December 31, 2004, \$500,000 had been drawn down on the DIP. The DIP bears interest at 15% and is secured by a general security agreement covering all assets of the Corporation and its subsidiaries. The financing provides for additional common shares to be issued upon further draws on this line.

Subsequent to the period, the DIP financing was repaid in full through the issuance of a convertible debenture (see Subsequent Events – note 28).

12. CCAA Payable

The Arrangement provides for a cash payment of \$500,000 by VoiceIQ to its creditors as settlement of outstanding liabilities under the CCAA. This liability was assumed by VIQ Solutions as part of the Acquisition and was paid subsequent to the period.

13. Note Payable

Note payable represents an unsecured, non-interest bearing, vendor take-back note of \$383,418 (Aus\$ 408,413) incurred in connection with the acquisition of Spark & Cannon by VoiceIQ in April 2004 and assumed by VIQ Solutions as part of the Acquisition. The note payable is repayable in four equal quarterly installments commencing July 31, 2004. Subsequent to the period, VIQ Solutions paid the third installment pursuant to the purchase agreement.

14. NRC-IRAP Repayable Contribution

The National Research Council Canada ("NRC") provided a contribution of \$292,000 under the Industrial Resources Assistance Program ("IRAP") for work undertaken by Voice IQ related to certain product development activities, based on 60% of the related salary costs. As part of the Arrangement, the Corporation has assumed this liability. The funding is repayable on a quarterly basis, starting September 1, 2003, based on 2% of the previous quarter's gross revenue. If the amount contributed is not repaid on this basis by June 1, 2013, the unpaid balance will be forgiven. Should the required repayments in the first eight quarters exceed the amount advanced, the excess amounts, up to a maximum of \$146,000, will be paid as royalties. Any royalties will be recognized as they become payable.

15. Obligations under Capital Leases

The Corporation and its subsidiaries have assumed capital lease obligations until 2008. The monthly lease payments consist of principal repayment and interest and the imputed interest rate is 16.81%. The minimum payments under all agreements are as follows:

| | | |
|------------------------|----|-----------|
| 2005 | \$ | 136,965 |
| 2006 | | 49,314 |
| 2007 | | 18,453 |
| 2008 | | 3,353 |
| | | 208,085 |
| Less: imputed interest | | (13,637) |
| | | 194,448 |
| Less: current portion | | (121,360) |
| | \$ | 73,088 |

16. Capital Stock

The Corporation's authorized capital consists of an unlimited number of common shares with no par value. Changes in the issued and outstanding common shares for the period ended December 31, 2004 are as follows:

| | Number of shares | Amount |
|--|------------------|--------------|
| Balance, December 24, 2004 (i) | 40,109,643 | \$ 267,774 |
| Issued for cash on private placements (ii) | 10,025,556 | 1,804,600 |
| Balance, December 31, 2004 | 50,135,199 | \$ 2,072,374 |

- (i) VIQ Solutions purchased the assets of VoiceIQ, together with the associated contractual obligations and liabilities (to the extent such liabilities were not compromised under the CCAA) in exchange for 36,776,310 common shares of the Corporation. Pursuant to the Arrangement, VIQ Solutions issued 2,000,000 common shares to the creditors of VoiceIQ and 1,333,333 common shares to a creditor of VoiceIQ as part of the settlement under the CCAA. The value of the common shares issued to shareholders and creditors is recorded at the carrying value of the underlying assets acquired (see note 4).
- (ii) On December 30, 2004, the Corporation issued 10,025,556 units ("Units") at a price of \$0.18 per unit for net proceeds of \$1,804,600. Each Unit comprised one common share and one-half warrant whereby each whole warrant entitles the holder thereof to purchase one common share at a price of \$0.30 for a period of 18 months from the closing date. Of the total proceeds, \$700,200 was received subsequent to the period.

As part of the Arrangement, VoiceIQ's stock options and warrants outstanding as of December 23, 2004 were reissued by the Corporation under the same terms and conditions that they existed in VoiceIQ. As at December 31, 2004, common shares of the Corporation were reserved as follows:

| | Price | Expiry Dates | Number |
|----------|-----------------|-----------------------|-----------|
| Options | \$0.15 | Jan. 2005 – Dec. 2005 | 7,000 |
| | \$0.15 | Jan. 2006 – Dec. 2006 | 17,000 |
| | \$0.60 – \$1.07 | Jan. 2008 – Dec. 2008 | 262,333 |
| | \$0.94 | Jan. 2009 – Dec. 2009 | 850,000 |
| | | | 1,136,333 |
| Warrants | \$0.25 - \$0.30 | Jan. 2005 – Dec. 2005 | 1,817,500 |
| | \$0.30 - \$0.80 | Jan. 2006 – Dec. 2006 | 6,089,855 |
| | \$0.50 - \$1.07 | Jan. 2008 – Dec. 2008 | 345,000 |
| | | | 8,252,355 |
| | | | 9,388,688 |

The Corporation's stock option plan allows for the granting of options up to an aggregate amount equal to 15% of the aggregate number of common shares of the Corporation outstanding. The options, which have a term not exceeding five years when issued, generally vest as follows:

- 1/3 at time of issue
- 1/3 after one year
- 1/3 after two years

The exercise price of each option is based on the market price of the Corporation's stock on the date of grant.

16. Capital Stock (Cont'd)

A summary of the status of the Corporation's stock option plan and changes during the period is presented below:

| | Number of Shares | Weighted Average Exercise Price |
|----------------------------------|------------------|---------------------------------|
| Carried forward from VoiceIQ (i) | 1,136,333 | \$0.85 |
| Outstanding, end of period | 1,136,333 | \$0.85 |
| Exercisable, end of period | 852,999 | \$0.82 |

- (i) Pursuant to the Arrangement, the outstanding stock options from VoiceIQ were cancelled and re-issued in VIQ Solutions with the same terms and conditions as they existed in VoiceIQ.

The following information applies to options outstanding and exercisable at December 31, 2004:

| Range of Exercise Prices | Options Outstanding | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Options Exercisable | Weighted Average Exercise Price |
|--------------------------|---------------------|---|---------------------------------|---------------------|---------------------------------|
| \$0.15 | 24,000 | 1.3 years | \$ 0.15 | 24,000 | \$ 0.15 |
| \$0.60 | 248,333 | 3.5 years | 0.60 | 248,333 | 0.60 |
| \$0.94 – \$1.07 | 864,000 | 4.1 years | 0.94 | 580,666 | 0.94 |
| | 1,136,333 | 3.9 years | \$ 0.85 | 852,999 | \$ 0.82 |

A summary of the status of the Corporation's warrants and changes during the period is presented below:

| | Number of Warrants | Price |
|---|--------------------|-----------------|
| Carried forward from VoiceIQ (i) | 2,894,577 | \$0.25 - \$0.80 |
| Options reissued as warrants (ii) | 345,000 | \$0.50 - \$1.07 |
| Warrants granted from private placement | 5,012,778 | \$0.30 |
| Outstanding, end of period | 8,252,355 | \$0.25 - \$1.07 |

- (ii) Pursuant to the Arrangement, the outstanding warrants from VoiceIQ were cancelled and re-issued in VIQ Solutions with the same terms and conditions as they existed in VoiceIQ.
- (iii) Pursuant to the Arrangement, certain stock options of VoiceIQ were cancelled and re-issued as warrants in VIQ Solutions with the same terms and conditions as they existed in VoiceIQ.

17. Contributed Surplus

| | | |
|------------------------------------|----|-------|
| Balance, beginning of period | \$ | - |
| Stock-based compensation (note 18) | | 5,200 |
| Balance, end of period | \$ | 5,200 |

18. Stock-based Compensation

The Corporation has an incentive stock option plan for all of its directors, officers, employees, and consultants. The option exercise price is the fair market value of the Corporation's common shares at the date of grant. These options generally vest over a period of 24 months after which they are exercisable for a maximum of five years after the grant date. In accordance with the Corporation's accounting policy, no compensation expense is recognized.

The total compensation expense relating to stock options granted to employees for the period was \$5,200, which was included in selling and administrative expense, with a corresponding charge to contributed surplus. The stock-based compensation relates to stock options that were carried forward from VoiceIQ and represents the corresponding expense for the reporting period.

19. Cumulative Foreign Currency Translation Adjustments

Analysis of the cumulative foreign currency translation adjustments included in shareholders' equity is as follows:

| | | |
|---|----|--------|
| Balance, beginning of period | \$ | - |
| Unrealized gain for the period on the translation of financial statements of Australian subsidiary | | 43,214 |
| Balance, end of period | \$ | 43,214 |

20. Commitments

The Corporation and its subsidiaries have entered into agreements to lease office premises until 2009. The annual rent expenses for premises consist of minimum rent plus realty taxes, insurance and common area maintenance costs.

The minimum payments under all agreements are as follows:

| | | |
|------|----|-----------|
| 2005 | \$ | 444,787 |
| 2006 | | 227,519 |
| 2007 | | 219,946 |
| 2008 | | 216,632 |
| 2009 | | 97,068 |
| | \$ | 1,205,952 |

21. Contingencies

Pursuant to the Arrangement, VIQ Solutions has assumed any potential liabilities that may have existed in VoiceIQ with respect to its operations up to the date of the Arrangement including the following contingencies:

- (i) The refundable investment tax credits of VoiceIQ received and accrued related to the years ended September 30, 2002, 2001 and 2000 are subject to review and audit by the Canada Revenue Agency ("CRA"). Although the Corporation has used its best judgement and understanding of the related income tax legislation in determining these amounts, it is possible that the amounts could change by a material amount in the near term, dependent on the review and audit by CRA.
- (ii) As disclosed in note 14, the Corporation may be liable to pay royalties up to \$146,000 related to the IRAP Repayable Contribution.

21. Contingencies (Cont'd)

- (iii) As a result of insolvency proceedings of a subsidiary of VoiceIQ, the Corporation may potentially be made a party to claims contingently liable for various matters that were not settled under the CCAA. Management believes that adequate provisions have been recorded in the accounts where required. Although it is not possible to estimate the extent of potential costs and losses, if any, management believes that the ultimate resolution of such contingencies will not have a material adverse effect on the consolidated financial position of the Corporation.
- (iv) The DIP financing provides for the issuance of additional common shares of the Corporation in the event that further draw-downs are taken under the DIP facility. This facility was repaid subsequent to the period without any additional draw-downs on the facility (see Subsequent Events – note 28).

22. Financial Instruments

(i) Credit Risk

Concentration of credit risk may arise from exposures to a single debtor or to a group of debtors having similar characteristics such that their ability to meet their obligations is expected to be affected similarly by changes in economic or other conditions. To alleviate the potential for risk concentration, credit limits are established and monitored in light of changing industry and market conditions.

The Corporation's most significant product and customer concentrations are summarized in Note 25. At December 31, 2004, one customer represented approximately 13% of accounts receivable.

(ii) Foreign Currency Risk

The following factors create significant exposure with regard to fluctuations in exchange rates:

- The Corporation operates internationally and has receivables denominated in foreign currencies. This exposure is reduced since some degree of hedging is achieved by holding payables denominated in foreign currencies.
- The Corporation has wholly-owned Australian subsidiaries.

(iii) Fair Values

The estimated fair values of cash and cash equivalents, receivables accrued, investment tax credits receivable, short-term debt and payables and accruals approximates their carrying values due to the relatively short term nature of the instruments and/or floating interest rates on the instruments. The estimated fair value of long-term debt also approximates its carrying value due to the relatively short-term nature of the instrument and/or effective interest rates that are not significantly different from market rates.

23. Loss per Common Share

| | |
|--|-------------|
| Net loss for the period - basic and diluted | \$ (76,299) |
| Weighted average number of common shares outstanding during the period - basic and diluted | 41,362,837 |
| Net loss per share - basic and diluted | \$ (0.00) |

The following were not included in the computation of diluted net loss per share as they are anti-dilutive:

- 852,999 stock options with a weighted average exercise price of \$0.82 per share (note 16); and
- 8,252,355 warrants with exercise prices ranging from \$0.25 to \$1.07 (note 16).

24. Supplemental Cash flow Information

During the period, changes in non-cash operating working capital were as follows:

| | |
|-----------------------|-----------|
| Receivables | \$ 90,863 |
| Prepays | (10,788) |
| Payables and accruals | (26,103) |
| Total | \$ 53,972 |

During the period, the following non-cash investing and financing activities were transacted:

- The Corporation purchased the assets of VoiceIQ for consideration that included 36,776,310 common shares of the Corporation. Pursuant to the Arrangement, the Corporation satisfied certain liabilities of VoiceIQ for consideration that included 3,333,333 common shares of the Corporation. (see note 4).

25. Segmented Information

Management has determined that the Corporation operates within two business segments: the computer products and services segment, which develops, distributes and licenses computer-based voice processing solutions based on its proprietary technology; and the transcription segment, which provides recording and transcription services, and information support services.

The Corporation's reportable segments are strategic business segments that offer different products and/or services. These business segments work on different business models and operate autonomously.

| | Computer Products & Services | Transcription Services | Total |
|------------------------------|------------------------------------|---------------------------|--------------|
| Sales to reportable segments | \$ 21,978 | \$ 63,694 | \$ 85,672 |
| Inter-segment sales | - | - | - |
| Sales to external customers | \$ 21,978 | \$ 63,694 | \$ 85,672 |
| Gross profit | \$ 7,476 | \$ 16,883 | \$ 24,359 |
| Segment income (loss) | \$ (64,405) | \$ (11,894) | \$ (76,299) |
| Segment assets | \$ 3,010,498 | \$ 3,809,361 | \$ 6,819,859 |

25. Segmented Information (Cont'd)

The following tables provide information about geographic sales, property, plant and equipment and goodwill.

| | Sales | Property, Plant and Equipment | Goodwill |
|-------------------------|-----------|----------------------------------|--------------|
| Canada | \$ - | \$ 276,049 | \$ - |
| Australia | 63,694 | 535,329 | 1,542,246 |
| United States and other | 21,978 | - | - |
| | \$ 85,672 | \$ 811,378 | \$ 1,542,246 |

The Corporation does not segregate sales and associated costs by individual software products. Accordingly, segmented information on sales and associated costs is only provided for the full line of software solutions currently offered by the Corporation.

26. Income Taxes

The difference between the Corporation's effective income tax rates and the amounts that would result from the application of the statutory income tax rates arises from the following:

| | |
|--|-------------|
| Combined basic federal and provincial income taxes at statutory rates | \$ (27,560) |
| Effect of lower rates for Australian subsidiary | 1,040 |
| Other items, including other non-deductible expenses | 7,867 |
| Change in income tax valuation allowance | 18,653 |
| Income tax provision | \$ - |

The significant components of future tax assets (liabilities) are as follows:

| | |
|---|-----------|
| Non-capital losses available to offset future taxable income | \$ 44,173 |
| Capital losses and related provisions available to offset future taxes payable | 340,061 |
| Excess of tax bases of assets over the carrying values | 420,325 |
| | 804,559 |
| Valuation allowance | |
| Income taxes | (559,277) |
| Future tax assets | \$245,282 |

The Corporation has available current year federal and provincial losses of \$77,500. These losses are available to reduce taxable income and taxes payable in future years and, if not utilized, will expire in 2014.

The Corporation's Australian subsidiaries have capital losses of approximately \$1,133,500 available to offset future taxable capital gains and non-capital losses of approximately \$54,000 to reduce taxable income and taxes payable in future. These losses do not expire.

The potential future tax benefits that may result from the application of these loss carryforwards have not been recorded in these consolidated financial statements.

27. Related Party Transactions

The DIP financing in the amount of \$500,000 is from a company in which a director of the Corporation is a senior officer (see note 11).

28. Subsequent Events

The following events occurred subsequent to the period:

(i) Private Placements

Subsequent to the period, the Corporation raised net proceeds of \$650,140 through two private placement offerings in January and February 2005. Details of the offerings are as follows:

- 3,611,889 units issued at \$0.18 whereby each unit consists of one common share and one-half of one common share purchase warrant;
- Each full common share purchase warrant is exercisable at a price of \$0.30 for 18 months; and
- Securities underlying units are subject to hold periods of four months commencing from the date of closing.

(ii) Directors' Placement

Subsequent to the period, the Corporation issued 2,490,555 units at \$0.18 for net proceeds of \$448,300 through a directors' placement based on the same terms and conditions of the private placements (see note 28(i)).

(iii) Management Bonus

On January 7, 2005, the independent directors of the Corporation approved the issuance of a bonus to the seven members of the senior management team of the Corporation in an aggregate amount of \$720,000 to be effective February 22, 2005. The bonus was paid by way of the issuance of an aggregate of 4,000,000 special warrants to the management team, with each special warrant being issued at the price of \$0.18 and being exercisable for a period of 18 months from the date of issuance, for no additional consideration, into one (1) common share of the Corporation. The special warrants, and all common shares into which the special warrants are exercised, shall be subject to a three-year escrow, based upon the value escrow agreement used by the TSX Venture Exchange ("TSXV").

(iv) Convertible Debenture

Subsequent to the period, the Corporation completed a twelve month, \$1,280,000 secured convertible debenture. The convertible debenture bears interest at a rate of 12% per annum compounded and payable monthly. The debenture is convertible into 7,111,111 units at a conversion price of \$0.18 per unit. Each unit is comprised of one common share of the Corporation and one half of one common share purchase warrant. Each whole warrant entitles the debenture holder to purchase one common share at a price of \$0.30 for a period of 18 months from the date of closing.

(v) Stock Options

Subsequent to the period, the Corporation granted 298,000 stock options to employees, 1,045,000 stock options to directors of the Corporation and 60,000 to the Corporation's corporate secretary. The options have an exercise price of \$0.22 and expire five years after the grant date. The stock options vest one third immediately, one third after one year and one third after two years.

28. Subsequent Events (Cont'd)

(vi) Trading

The Corporation received approval from the TSXV to begin trading on February 28, 2005 under the symbol "VQS".

(vii) Additional Private Placement

In March 2005, the Corporation raised net proceeds of \$575,000 through an additional private placement offerings based on the following terms:

- 2,500,000 units issued at \$0.23 whereby each unit consists of one common share and one-half of one common share purchase warrant;
- Each full common share purchase warrant is exercisable at a price of \$0.30 for 24 months; and
- Securities underlying units are subject to hold periods of four months commencing from the date of closing.